

Message Text

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SUBJECT: IBM PROBLEMS IN INDONESIA

REF: (A) LAGOS 3058, (B) NEW DELHI 3938

1. IBM'S PROBLEMS WITH THE GOI DIFFERED SOMEWHAT FROM THOSE IN NIGERIA AND INDIA, IN THAT OWNERSHIP OF MARKETING FACILITY WAS AT ISSUE, RATHER THAN INVESTMENT EQUITY. A 1968 GOI LAW STIPULATED THAT AS OF JANUARY 1, 1978 ALL TRADING (I.E., SALES, MARKETING, ETC.) WAS TO BE IN INDONESIAN HANDS. COMPANIES INVESTING IN THIS COUNTRY AFTER 1968 WERE REQUIRED TO MARKET THEIR PRODUCTS THROUGH INDONESIAN AGENTS FROM THE OUTSET, BUT IBM AND 18 OTHER FOREIGN-OWNED FIRMS WHOSE PRESENCE IN INDONESIA PREDATED 1968 WERE GIVEN TEN YEARS TO COMPLY.

2. ALTHOUGH NONE OF THE NINETEEN COMPANIES WAS EAGER TO
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TURN OVER DISTRIBUTION TO LOCALS, IBM'S STRENUOUS EFFORTS TO RESIST STOOD OUT. THE COMPANY SOUGHT EXEMPTION, BASED PRIMARILY ON THE HIGH TECHNOLOGY ARGUMENT AND ON ITS CONTENTION THAT ITS ACTIVITIES (PARTICULARLY LEASING AND SERVICING) DID NOT FALL WITHIN THE STANDARD DEFINITION OF TRADING. DESPITE THE COMPANY'S INTENSIVE AND HIGH-LEVEL LOBBYING EFFORTS,

THE GOI HELD FIRM, AND AS LATE AS OCTOBER, 1977, THE ODDS SEEMED TO FAVOR AN IBM WITHDRAWAL.

3. HOWEVER, IN LATE DECEMBER A BREAKTHROUGH WAS REACHED WHICH WILL ALLOW IBM TO CONTINUE TO OPERATE IN INDONESIA. THE PLAN CALLS FOR A TRIPARTITE IBM PRESENCE HERE. THE FIRST PART IS A REPRESENTATIVE OFFICE. MANY COMPANIES WHICH MARKET PRODUCTS HERE HAVE REP OFFICES, WHICH ARE PROHIBITED FROM ENGAGING IN SALES BUT ARE ALLOWED TO BE "OF SERVICE" TO CUSTOMERS; IN FACT, MOST REP OFFICES DO HAVE A HAND IN SALES, AND THE GOI SIMPLY WINKS. IBM'S REP OFFICE WILL EMPLOY NINETEEN PERSONS INCLUDING EIGHT EXPATRIATES, MANY TIMES THE SIZE OF THE AVERAGE REP OFFICE. THE SECOND PART IS AN AGENCY WITH RESPONSIBILITY FOR THE SALE AND LEASING OF EQUIPMENT. ALTHOUGH THE AGENCY IS INDONESIAN-OWNED, IBM HAD A SAY IN CHOOSING IT, AND MANY OF ITS STAFF ARE FORMER IBM EMPLOYEES. THE THIRD PART IS A TECHNICAL SUPPORT GROUP WHICH WILL PERFORM MAINTENANCE AND OTHER TASKS UNDER A CONTRACTUAL ARRANGEMENT WITH THE AGENCY. THE SUPPORT GROUP WILL EMPLOY 100, ALL FORMER IBM EMPLOYEES, AND WILL PROBABLY BE A DELAWARE COMPANY. THE PROBLEM OF PERFORMANCE OF MAINTENANCE HAD BEEN TOUGHEST TO SOLVE, WITH THE GOI MAINTAINING THAT IT HAD TO BE PERFORMED BY THE AGENT AND THE COMPANY INSISTING THAT ONLY IT COULD DO SO. WHEN THE LIMITED OFFICIAL USE

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MINISTER OF TRADE SUGGESTED THE TECHNICAL SUPPORT CONCEPT, WHICH WILL GIVE THE COMPANY A SUFFICIENT DEGREE OF CONTROL, IBM QUICKLY ACCEPTED IT.

4. THE SETTLEMENT WAS A CLASSIC COMPROMISE WITH GIVE ON BOTH SIDES. ALTHOUGH MANY OBSERVERS ASSUMED IBM WAS OPPOSED TO USING AN AGENT FOR ANY PART OF ITS OPERATION, THE COMPANY HAD MADE CLEAR TO US THAT IT WAS ONLY AN AGENT PERFORMING MAINTENANCE THAT WAS UNACCEPTABLE. WHEN THE GOI PROPOSED A SOLUTION ALLOWING IBM TO OVERSEE MAINTENANCE, PLUS AN OVERSIZE REP OFFICE, THE COMPANY WAS SATISFIED. AS FOR THE GOI, WHILE IT COULD NOT BE SEEN PUBLICLY TO BACK DOWN TO IBM, THERE WERE COMPETING PRESSURES FOR IT TO STOP SHORT OF FORCING IBM TO PULL OUT. ONE WAS THE KNOWLEDGE THAT AN IBM WITHDRAWAL WOULD HAVE HAD SERIOUSLY NEGATIVE CONSEQUENCES FOR THE NUMEROUS GOVERNMENT MINISTRIES, AGENCIES, INSTITUTIONS AND STATE-OWNED COMPANIES WHICH RELY ON IBM EQUIPMENT. THE OTHER, A POINT WHICH THE EMBASSY MADE TO THE GOI, WAS THAT AN IBM WITHDRAWAL WOULD DAMAGE FURTHER AN ALREADY SICKLY INVESTMENT CLIMATE.

MASTERS

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